

FY 2003 FIELD FINANCIAL STATEMENT ANALYSIS & FOOTNOTE DISCLOSURE REQUIREMENTS

Field Office financial statement analysis, footnotes, and required supplementary stewardship information must be submitted by July 25, 2003, for 3rd quarter statements and October 27, 2003, for year-end statements to the Office of Financial Control and Reporting (OFCR), ME-12/GTN, to the attention of Lori King. Please note that some of the analyses/footnotes **are not required for 3rd quarter reporting**. The requirements for 3rd quarter and/or year-end are noted for each specific analysis/footnote.

I. Financial Statement Analysis

Field Offices are responsible for the analysis of their principal statements as well as certain suspense and miscellaneous account balances. The principal statements are available from the Management Analysis Reporting System (MARS). Requests for user IDs to access the MARS reports should be directed to Linda Keller in the Office of Corporate Financial Systems on (301) 903-5281.

Field Offices are encouraged to analyze their principal statements prior to the end of the 3rd quarter and year-end in order to assist OFCR in validating DOE's Standard General Ledger (SGL) crosswalk and the selection criteria for the statements. Questions, comments, and requests for changes to the SGL crosswalk or principal statement selection criteria can be directed to any one of the following individuals:

| | | | |
|---------------|----------------|-----------|--------------------------|
| Marion Hoch | (301) 903-4216 | or E-mail | Marion.Hoch@hq.doe.gov |
| Lori King | (301) 903-5265 | or E-mail | Lori.King@hq.doe.gov |
| Deanna Ammons | (301) 903-5374 | or E-mail | Deanna.Ammons@hq.doe.gov |

The results of each field office's analysis should summarize both field office and integrated contractor data. However, detailed documentation by reporting unit must be available to support the analysis submitted to Headquarters. Attachment 5 lists the MARS reports to be used for analysis purposes.

Analysis of Suspense/Miscellaneous Account Balances. The MARS reports referenced in Attachment 5 identify all of the following suspense/miscellaneous account balances requiring analysis/disclosure:

SGL 1010 - Fund Balance with Treasury (required for year-end only) - Analyze and provide an explanation for any balances in the following DOE balance sheet accounts:

- 1126, Budget Clearing Account--Suspense (89F3875)
- 112A, Budget Clearing Account--Unavailable Check Cancellation & Overpayments (89F3880)
- 112Q, Budget Clearing Account--Undistributed Intergovernmental Payments (89F3885)

SGL 1990 - Other Agency Assets (required for year-end only) - Analyze and provide an explanation for any balance in the following DOE balance sheet account:

- 1813, Prepayments--Suspense Debits

SGL 2320 - Deferred Credits (required for year-end only) - Analyze and provide an explanation for any balance in the following DOE balance sheet account:

- 3914, Suspense Credits

SGL 2990U9 - Other Liabilities, Not Covered by Budgetary Resources, All Other Unfunded Liabilities (required for 3rd quarter and year-end) - Analyze and provide an explanation for any balance in the following DOE balance sheet account:

- 3999, Unfunded Liabilities, Other (Balances associated with ES&H liabilities should agree with field offices' footnote 2 disclosures.)

Abnormal Account Balance Analysis (required for 3rd quarter and year-end)

Analyze and provide an explanation for any significant account balances with an abnormal balance (i.e., a debit balance in an account that should have a credit balance or vice-versa). The MARS report referenced in Attachment 5 identifies these abnormal balances.

Tiepoint Analysis (required for 3rd quarter and year-end)

Automated comparison reports are available from the MARS financial statement menu to assist offices in ensuring certain tiepoints between the statements are functioning properly. Each office should research differences identified on the following reports and correct data errors or request SGL crosswalk changes or statement selection criteria changes from OFCR, as necessary:

- Compare Statement of Financing to Statement of Net Cost
- Compare Balance Sheet to Statement of Changes in Net Position (Note that this report now separately identifies differences in both unexpended appropriations and cumulative results of operations.)
- Compare Balance Sheet Assets to Liabilities and Net Position

Significant Changes in Financial Statement Balances (required for year-end only)

The financial statements reports are programmed to print an asterisk on any line that meets the significant change criteria set by KPMG. The threshold for FY 2003 has not changed and the reports will pick up items that have **increased/decreased by \$15 million or more regardless of the percentage change from last year**. In FY 2002 we revised the program for these reports to eliminate the necessity of providing detailed explanations for significant changes for certain items that are sufficiently analyzed either elsewhere in the statements, footnote disclosures, or other documentation available. These items include the following: fund balance with Treasury, investments, regulatory assets, appropriated capital owed to Treasury, deferred revenues, environmental liabilities, pensions and other actuarial liabilities, contingencies, unexpended appropriations, cumulative results of operations, prior period adjustments, other gains/losses. However, it should be noted that, even though field offices are not being required to provide explanations for significant changes in the above accounts, KPMG auditors may require explanations for specific differences. Provide an explanation of each line item flagged with an asterisk at the **field office** level, or indicate that KPMG has performed onsite analytical testing of significant account balance changes during the FY 2003 audit. A review of last year's significant change analyses and follow up discussions with KPMG disclosed that there were instances where explanations provided were either unclear or not comprehensive enough. Please ensure that your explanations are thorough and state not only what has changed but also provide adequate detail as to why the significant change occurred. Also, several field offices did not provide any analysis last year. The explanation given was that, since KPMG was performing audit work at the site, KPMG was performing the required analysis, and therefore no field analysis was required. We would like to emphasize that the analysis is the responsibility of every field office, **not KPMG**. KPMG reviews field analyses as part of their audit. OFCR will review field office analyses and follow up for more detailed information, as necessary.

Analysis of Environmental Liability Data (required for 3rd quarter and year-end)

The following reports identified in Attachment 5 are available to assist in the analysis of environmental liability data. We are currently in the process of revising the current environmental liability reports to enhance their accuracy and understandability, and to facilitate their usefulness with respect to financial statement preparation. The revised reports are scheduled to be completed in time for 3rd quarter financial statement reporting.

Environmental Liabilities by Field Office Report - This report verifies that the beginning balance (funded/unfunded) plus any prior period adjustments and current year changes equals the ending balance (funded/unfunded). Current year reclassifications of unfunded to funded must always equal zero. Differences in this report may be caused by missing or incorrect source document codes.

EM Operating Expenditures Reconciliation Report - Column 6 (Unreconciled Difference) should only contain non-legacy waste operating costs incurred in FY 2003. Explanations need to be provided for any items in Column 6 that do not represent non-legacy waste operating costs so that proper determinations/dispositions can be made.

EM Capital Expenditures Reconciliation Report - Unreconciled Differences (Column 6) should only include items that do not meet the criteria for legacy waste (i.e. – EM facilities used < 50 % to address legacy waste). Column 4 (Non-Legacy Waste Capitalized Costs) should also be reviewed for accuracy.

As you use the above reports, if you discover that your field site has a special situation that does not conform to a report program, please advise us as soon as possible so that we can research the issue and make adjustments to the report program, if applicable. Questions regarding environmental liability data and the reconciliation reports should be addressed to Marion Hoch on (301) 903-4216. Other environmental liability related questions should be addressed to Lois Jessup on (202) 586-3959.

Other Accounting Data Errors (required for 3rd quarter and year-end)

Provide an explanation for significant accounting data errors, if any, not already identified in any of the previous analysis steps.

II. Footnote Disclosure Requirements

NOTE 1 – Contingencies (required for year-end only)

The legal representation letter process will generate the necessary information to prepare this footnote disclosure at the Headquarters level. The Office of General Counsel will request the general counsel at each field office to provide a narrative description of contingent liabilities as part of the legal representation letter process. The field office general counsels should coordinate with their respective field office Chief Financial Officer prior to submitting this information to the Office of General Counsel. Please provide a copy of your general counsel's submission as soon as it becomes available. This submission will be used to prepare the contingent liabilities footnote disclosure.

NOTE 2 - Environmental, Safety, and Health Liability (required for year-end only)

This reconciliation schedule should be used to support all adjustments made to the ES&H liability. The estimate should include all ES&H compliance activities funded by all Cognizant Secretarial Offices, except the Office of Environmental Management (EM). The EM portion of the ES&H compliance liability will be reported as a component of the EM environmental liability.

Office/Site

| | |
|---|-------------|
| Beginning Balance as of FY 2002 | \$xxxx |
| Less FY 2003 cost incurred | (xxxx) |
| Changes in estimate due to items that are no longer considered compliance activities | (xxxx) |
| Change in estimate due to a change in scope | xxxx |
| Other items | <u>xxxx</u> |
| ES&H liability - Ending Balance | \$xxxx |

NOTE 3 - Environmental Liability (required for 3rd quarter and year-end)

As part of the annual footnote disclosure reporting and analysis, field offices are requested to provide a reconciliation between EM's portion of the June 30, 2003/September 30, 2003, "booked" environmental liability and the amount reflected in the 2003 PBS budget and planning life-cycle cost estimates, using the following format:

Office/Site

| | |
|--|-------------|
| 2003 PBS Budget and Planning Life-Cycle Cost Estimates | \$xxxx |
| + Non-EM funded environmental liabilities not included above | xxxx |
| - Waste from ongoing/future operations (e.g., non-EM newly generated waste) included in the above | xxxx |
| - Duplicate costs reported elsewhere in the financial statements (e.g., post retirement benefits, other than pensions) | xxxx |
| ± FY2003 Approved Baseline Changes not reflected above | xxxx |
| - FY 2003 Actual Costs | xxxx |
| ± Other, please identify (e.g., prior years' Actuals) | <u>xxxx</u> |
| Ending MARS Environmental Liability Balance | \$xxxx |

The ending balance should equal the amount in the following account numbers with the source code equal to "EMF":

3896 - Funded Environmental Liabilities
3996 - Environmental Liabilities

Scope Changes

In addition, please provide a summary of any changes in assumptions (e.g., major changes in productivity or end-state assumptions); major events (e.g., transfer of liability); or work performed that highlights significant dollar changes between the FY 2002 and FY 2003 environmental liability. This information should be described at a high, but sufficient, level for incorporation as a footnote disclosure item in the financial statements.

NOTE 4 – Intra-Governmental Transactions (required for 3rd quarter and year-end)

Transactions identified as intra-governmental (those with MARS SGL Flag = “F”) must have a valid Other Party Identification (OPI) Code that begins with “03” or “06.” Reports identified in Attachment 5 have been established to assist you in monitoring the accurate input and reporting of this data.

In response to increased intra-governmental reconciliation requirements, the Department will need to reconcile reimbursable work activities with other Federal agencies. For year-end reporting only, field offices performing work for other Federal agencies must provide a detailed list of earned revenues containing specific reimbursable work agreement numbers for each OPI having activity. The following “03” OPIs may be excluded from your detailed analysis (0300, 0301, 0302, 0303, 0304, 0381, 0385, 0386, 0387, 0388, 0389, 0390, 0399). This information will be aggregated by OFCR in order to reconcile these interagency transactions with the respective agencies. If the Department receives requests from other Federal agencies to confirm additional quarterly or year-end intra-governmental balances, field offices may also be asked to provide the necessary detailed breakout of these transactions to assist OFCR in this effort.

Additionally, any amounts reported with an OPI code of “0399” should be analyzed to determine whether a more appropriate OPI code can be utilized. Classified amounts should continue to be reported using OPI 0399, but all other intra-governmental balances should utilize an appropriate OPI code other than 0399, if available. If assistance is needed in determining the OPI code to use, please call Marion Hoch on 301-903-4216. To see the activity in the “0399” OPI code, two of the reports listed in Attachment 5 (FS_MRR_CBSSG03 from the Balance Sheet View & FS_MRR_NC03SG5 from the Statement of Net Cost View) can be used.

Please use the format on the following page to identify any “Other” amounts. The format is similar to the reports mentioned. SGL 1310, Accounts Receivable, with BSC 1441, Reimbursements Receivable Other Federal Agencies, has been broken out as an example.

Field Office: _____
 Reporting Unit: _____

| <u>SGL</u> | <u>BSC</u> | <u>FT</u> | <u>Amount</u> | <u>Explanation</u> |
|------------|------------|-----------|----------------------|--------------------|
| 131011 | 1441 | XX | 9.99 | classified |
| 131011 | 1441 | XY | 99.99 | classified |
| BSC Total: | | | <u>109.98</u> | |
| SGL Total: | | | <u>109.98</u> | |
| RU Total: | | | <u>109.98</u> | |
| FO Total: | | | <u><u>109.98</u></u> | |

NOTE 5 - Property, Plant, and Equipment (PP&E) (year-end only)

Each field office is required to prepare a consolidated PP&E Roll Forward Schedule for FY 2003. The FY 2003 schedule coincides with FY 2003 financial statement and footnote formats to facilitate field office preparation and assist KPMG with their audit processes. At year-end, OFCR will e-mail each field office an Excel file containing a Roll Forward Schedule template (Exhibit 1). As you complete the schedule, it is important to ensure consistency with data contained in the Balance Sheet and Statement of Financing. To assist you, the following guidelines should be used in conjunction with completing the Roll Forward Schedule. If you have any additional questions, please contact Lori King on (301) 903-5265 or Marion Hoch on (301) 903-4216

1. Previous approval for all material prior period adjustments (SGL 7401) contained on the PP&E Roll Forward Schedule should have already been obtained from OFCR in accordance with the requirements outlined in Attachment 6. This encompasses both adjustments due to the correction of errors and adjustments due to the change in accounting principle.
2. The amounts contained in the line entitled “Costs Capitalized on the Balance Sheet” on the Roll Forward Schedule should also be included in the line entitled “Resources that Finance the Acquisition of Assets” on the Statement of Financing (SGL 803001).
3. Any Transfers listed on the Roll Forward Schedule should also be included in Line 2400 of the Statement of Financing.

4. The “Net PP&E” column within the “Deletions from the Balance Sheet” section should be 0. In other words, amounts reported under the “PP&E” and Accumulated Depreciation” columns should be the same, so as to result in a Net PP&E equal to 0.
5. The amounts contained in the section entitled “Revaluations” on the Roll Forward Schedule should be able to be reconciled back to the line entitled “Revaluation of Assets and Liabilities” on the Statement of Financing.
6. “Current Year Depreciation” on the Roll Forward Schedule should be able to be reconciled back to the line entitled “Depreciation and Amortization” on the Statement of Financing. Any differences should be due to nuclear materials amortization and depletion entries that are made in Fund Type 5*. The depreciation figure can be found in SGL 6710.
7. PP&E Beginning and ending balances from the Roll Forward Schedule should tie to those balances for beginning and ending PP&E found on the Balance Sheet

Example:

Beginning 2003 Roll Forward Schedule = PP&E 2002 on Balance Sheet

Ending 2003 Roll Forward Schedule = PP&E 2003 on Balance Sheet

NOTE 6 - Subsequent Events (year-end only)

KPMG provided the following guidance for reporting subsequent events. Please use this information when preparing your footnote.

Subsequent Events - events or transactions which occur after September 30, 2003, but before the issuance of the financial statements and auditor's report that have a material effect on the financial statements and require adjustment or disclosure in the statements.

Two types of subsequent events require consideration by management and evaluation by the independent auditor.

The **first type** consists of events that provide additional information about conditions that existed at September 30, 2003, and affect the estimates used in the process of preparing financial statements. Management, in its evaluation of the conditions on which the estimates were based, should use all information that becomes available prior to the issuance of the financial statements. The financial statements should be adjusted for any changes in estimates resulting from the use of such information.

Examples of events of the first type that require adjustment to the financial statements are:

- The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the events, such as personal injury or patent infringement, that gave rise to the litigation had taken place prior to September 30, 2003.
- A loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after September 30, 2003, would be indicative of conditions existing at the balance-sheet date, thereby calling for adjustment of the financial statements before their issuance.

The **second type** consists of events that provide additional information about conditions that did **NOT** exist at September 30, 2003, but arose after that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that disclosure of them is required to keep the financial statements from being misleading.

Examples of events of the second type that require disclosure to the financial statements (but should not result in adjustment) are:

1. Congress passes legislation in November 2003 which obligates DOE to pay claims to injured parties.
2. Settlement of litigation when the event giving rise to the claim took place after September 30, 2003.
3. Loss of plant or inventories as a result of fire or flood.
4. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after September 30, 2003.

III. Required Supplementary Stewardship Information (year-end only)

Heritage Assets, Non-Federal Physical Property, Human Capital, and Deferred Maintenance

- Heritage Assets. Field CFOs are reminded that heritage assets should not be reported on the Department's Balance Sheet in accordance with Statement of Federal Financial Accounting Standards No. 8 (SFFAS No. 8), "Supplementary Stewardship Reporting."
- Nonfederal Physical Property (NFPP). Field CFOs should coordinate with Heads of Field Elements and cognizant property and program officials to confirm that the amount of NFPP reported as Required Supplementary Stewardship Information (RSSI) has not changed. In FY 1998, a reporting threshold of \$1 million was established for individual items of physical property; e.g., building, road, sewer system, major equipment, etc. Note that regardless of the fact that the \$1 million threshold may not have been met in a previous fiscal year, if the threshold is met in FY 2003, costs for the current and previous fiscal years must be reported.

- Human Capital. Field CFOs should coordinate with programs and Headquarters Elements, as appropriate, to confirm that the amount of investments in Human Capital reported as RSSI has not changed. In FY 1998, a reporting threshold of \$10 million was established for major Departmental programs or activities that incur costs that are “. . . intended to maintain or increase national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity” (SFFAS No. 8). Note that, regardless of the fact that the \$10 million threshold may not have been met in a previous fiscal year, if the threshold is met in FY 2003, costs for the current and previous fiscal years must be reported.
- Applicability of Managerial Cost Accounting Standards to Stewardship Reporting. SFFAS No. 8 requires that investments in NFPP and Human Capital must be measured on the same basis of accounting as used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and costs of facilities. The methodology used should be consistent with that employed to determine the full cost of the Department’s programs in accordance with the Office of Financial Policy FY 2003 Managerial Cost Accounting Guidance.
- Deferred Maintenance Reporting for Personal Property.

The format on the following page should be used to report deferred maintenance for personal property.

Report Disclosure Information for Personal Property
(As of September 30, 2003)

Field Office: _____ Field Site/Contractor: _____

Contact Person: _____

Name _____ Phone Number _____

Asset Category: General PP&E Asset Class: Personal Property - Capital Equipment

Maintenance Plan: Yes _____ No _____ If no, please explain. _____

Identify Method of Measuring Deferred Maintenance:

Descriptions of Requirements or Standards for Acceptable Operating Condition:

Changes in the condition or standards from previous year: _____

Percentages of Assets below the acceptable operating condition: _____%

Deferred Maintenance Estimate¹: _____

Date of Last Assessment: _____

¹The estimate should include amounts to restore the asset to its operating condition, not to upgrade an asset or expand its capacity. Pursuant to the cost/benefit considerations provided by SFFAS No. 6, the Department has determined that the requirement for deferred maintenance reporting on personal property is not applicable to property items with an acquisition cost of less than \$100,000 except in situations where maintenance is needed to address worker and public health and safety concerns.

Questions or concerns with regard to Stewardship reporting for Heritage Assets, NFPP, and Human Capital should be directed to Mary Rosicky, ME-11, 202-586-9354.